



THE \$TRATEGIST

There and Back Again

By Tom Wargin CFA, CFP®

Usually, in the first newsletter of the year, I recap the last year and give outlook for what the new year will bring as far as the markets are concerned. I think we can all agree that 2022, from an investment standpoint, was something we all would want to forget. On the bright side it wasn't as bad as 2008 unless you were heavily invested in tech or cryptocurrency. Certainly, we didn't have much exposure to tech and zero direct exposure to crypto.

Inflation was the key topic for us and for the Federal Reserve as they embarked on one of the quickest rate raising and monetary tightening periods since 1981. That caused the bond market to sell off and present us with double digit declines at the same time as the stock market, which hasn't happened since the early 1800s according to Vanguard. Thankfully, we had tilted your income exposure to the shorter-term maturities and avoided a lot of the large losses.

As a counterpoint to tech, *we have always tilted your portfolios to more value investments since, over longer periods of time, it has consistently outperformed growth style investments.* For example, based on

a Standard and Poor's study going back to 1968, value stocks gained 14.6% annually on average compared to 9.7% for growth stocks. It may not seem that way due to tech stocks large run up from 2014 to 2021. However, according to Standard and Poor's, value stocks only trailed by 2.5% per year over that time. When value stocks outperformed growth, they did so by over 7% per year, according to the same study. (Credit to Gary Barohn CFA for some of those statistics.)

Because of the large increase in inflation, some investors are comparing this time period to the late 70s and early 80s. We don't believe inflation will hit the numbers it did back then of 13.5% in 1981. We think inflation will stabilize around 4-5% by the end of this year. Based on that, if the Fed stays true to its word, income rates for intermediate bonds should be in the range of 5-6%. Finally, you can actually earn some decent income from your bond holdings. That should also temper some of the volatility in stocks.

We'll have to see how corporate earnings are affected by goods inflation; that will be a key indicator for their performance this year. So far, goods inflation is



declining but service inflation continues to increase. It is our belief that 2023 will be positive for the stock markets but possibly only in single digits unless earnings are greater than expected. In that case, the market may surprise to the upside with double digit returns.

May you have a happy & healthy 2023!

Liberty Tax Prep Clients

We will send out an email or snail mail message in early February requesting your 2022 tax season input either through our online tax software account or regular mail. If you seek an in-person tax-specific appointment, please make an early call to the office at 262-785-1377, or schedule with our online calendar at www.lfgwi.com under "Client Login & Resources" and then "Schedule a Meeting Here."



Planning Notes

By June Ann Schroeder, R.N. CFP®

Credit Score Changes

New credit scoring systems will incorporate payments for rent and utilities, which will benefit lower income families when applying for mortgages over the next few years, according to the Federal Housing Finance Authority. Changes are coming to how medical bills are reported as well.

“Quiet Quitting” on the Rise

More prevalent in those born after 1989, just doing the minimum at work has become a problem. Focusing on things outside work or “work-life balance” has affected U.S. productivity and efficiency. This behavior makes them most likely to be the first to be laid off when the time comes for work force reduction and reduces promotion opportunities and pay increases.

Trees Increase Home Values

Research by several university horticulture programs shows that homes with well-maintained trees increase the sale value by up to 15% when compared to similar homes without trees in their landscape.

Record High Monthly Car Payments

Monthly car payments were at a record high of \$733 in mid-2022. Since then, according to *Edmunds*, prices of used vehicles plunged in December 2022 and are now similar to new car prices of 2010.

Car Rental Tip

Consider adding a “loss damage waiver” when renting a car if your personal auto insurance does not cover this. This prevents you from being responsible for the lost resale value of your rental vehicle should you be in an accident whether your fault or not.

Client Alerts

By Shannon Nook, FPQP™

2023 Contribution & Catch-up Limits

IRAs = \$6,500 + \$1,000
401k, 403b, 457 = \$22,500 + \$7,500
Simple = \$15,500 + \$3,500

Secure Act 2.0 New Year New Rules Starting in 2023!

- **IRA Catch Up Contributions** for those over age 50 will be indexed for inflation in 2024 in increments of up to \$100. In 2025, anyone age 60-63 who is funding a 401k/403B or a SIMPLE plan will see catch-ups increased and adjusted for inflation as well. The new rules will allow more to increase their power of compounding for retirement!
- **Required Minimum Distributions (RMDs)**, anyone who turned 72 after December 31, 2022 will now begin RMDs at age 73. Plus, a sunset provision over the next nine years was added to anyone who turns 74 after December 31, 2032 (yes, 2032) will begin at age 75. Of course this change does not affect inherited IRA/Roth RMDs. Don't worry, we'll stay abreast of bringing your new RMD dates to your attention!
- **Reduced penalty if you forget to take your RMD**, now 25% of the portion you missed rather than the previous 50% penalty.
- **Unused 529 funds** may be rolled over penalty-free beginning in 2024 directly to a beneficiary's Roth IRA (maximum over beneficiary lifetime \$35k). The 529 plan must have been in existence for at least fifteen years, and any earnings on contributions made within the last five years are ineligible for this tax break. *You can also use 529 funds to pay up to \$10k of qualified student loans.*

Featured Artist: Dan Rice



Dan was born and raised in Wisconsin. Over the years, he developed a unique perspective on its beauty. According to Dan, “Cold winter skies, warm summer sunsets and crisp autumn mornings are not just the images I’ve captured through my viewfinder. They are the memories of my childhood.”

From seascapes to cityscapes to picture-in-picture to dimensional matting, Dan Rice is surely among Wisconsin's most unique and creative artists. See more of his work, displaying his love for Wisconsin, at our office or go to www.focusonwisconsin.net for more enjoyable viewing.



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